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SUBJECT: INTERNAL DEBATE ON IRAQ'S PDS REFORM

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[1](#)B. BAGHDAD 2689

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SUMMARY

[1](#)1. (SBU) The Ministry of Trade and the Prime Minister's Advisory Board are actively debating how to reform the Public Distribution System (PDS), but there is no consensus on the way forward. Failure to reconcile the two sides could impede the GOI's ability to phase out the PDS in accordance with its International Compact with Iraq commitments. End Summary.

[1](#)2. (SBU) On September 23, the United Nations Development Program (UNDP) hosted the first joint donor meeting with the GOI's Public Distribution System (PDS) Reform Steering Committee at UNAMI headquarters. Participants included members of the Prime Minister's Advisory Board, the Ministry of Trade, the Ministry of Finance, and representatives from the World Bank, World Food Program, Food and Agriculture Organization, the International Labor Organization (ILO), UK DFID, and the Danish and U.S. Embassies. The PDS is a universal food program - administered through the Ministry of Trade (MoT) - through which the Iraqi Government attempts to provide a monthly basket of basic foods and assorted commodities. Under the International Compact with Iraq, the GOI pledged to phase out the PDS by 2011.

THE MINISTRY OF TRADE'S APPROACH

[1](#)3. (SBU) Dr. Abdul Had Al-Hamriri, Senior Counselor to Minister of Trade (MoT) Al-Sudani, laid out the MoT's "Roadmap and Exit Strategy of the Government from the Public Distribution System," a phased plan that would monetize the PDS and fold it into social safety net payments by 2011. According to this approach, all Iraqi heads of households will be required to submit income declaration forms in late 2008 as part of the annual re-registration for PDS benefits. District Advisory Councils (DAC) would then verify the information and transmit the forms to the MoT. In cooperation with the Ministry of Planning and Development (MoPD), the MoT would use the declaration forms to means test beneficiaries and then create a new, shorter list of those eligible for PDS. Moreover, said Al-Hamriri, some Iraqis would "opt out" of the system, rather than submit declarations. (Comment: We have heard separately from Minister Al-Sudani that, following the means-testing, he intends to remove the wealthiest 25 percent of Iraqis from the rolls (reftel A). However, discussion of specific percentages is an extremely sensitive subject one that Al-Hamriri was reluctant to discuss in this form. End Comment).

[1](#)4. (SBU) By the second half of 2009, families who are determined eligible to still receive PDS benefits would have the option of receiving either commodity allocations, as they do now, or cash payments that MoT would distribute via private and public banks. Under this plan, the MoT would

import 50 percent of current PDS supplies and distribute the items to the 60,000 existing PDS agents. PDS beneficiaries would therefore have the choice of whether to purchase PDS items through the agents at fixed prices or from the private sector, depending on price and quality factors. By the end of 2010, the MoT would transfer the value of PDS monetary benefits into GOI social safety net payments.

THE PM'S ADVISORY BOARD'S APPROACH

15. (SBU) Dr. Abdulhussein Alanbaki, Economic Adviser to Prime Minister Maliki, explained that the PM's Advisory Board recommended a different approach, which would maintain PDS allocation numbers and beneficiaries, involve the private sector in the immediate administration of the PDS, and eventually move the system to a food stamp-like program. Stating the GOI had not yet "100 percent" approved the MoT's plan and citing significant "political, social, and economic" considerations behind the reform process, Alanbaki said the GOI needs to keep the PDS in its current form, but transfer its administration to the private sector in 2009. Under this plan, the MoT would maintain a funding role, and, in 2010-2011, the MoT, MoF, and MoPD would work together to begin the process of eliminating benefits for wealthy and middle class Iraqis, focusing the benefit to Iraq's neediest households. The GOI would then incorporate a food stamp-like program that would drive the benefit allocation towards domestically-produced PDS items in order to bolster the Iraqi agricultural production.

BOTH PLANS RIFE WITH RISKS

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16. (SBU) Advisory Board members questioned the MoT's capacity to continue administering the PDS in any form, given its unwieldy structure and rising food prices. PM Advisor and Board Member Saad Ibrahim complained of systemic corruption in PDS, from import to distribution, arguing the private sector would help improve this problem. PM Adviser Alanbaki further argued against monetization, referencing a COSIT survey that cited 90 percent opposition to monetized PDS benefits. He also doubted whether the banking system was sufficiently prepared to handle PDS cash payments according to the MoT's timetable.

17. (SBU) The MoT's Al-Hamriri, on the other hand, ruled out the Board's private sector strategy and said the MoT needed to continue to administer PDS. He argued that the private sector was still grossly underdeveloped and any privatization of PDS administration would leave the system vulnerable to even more corruption. "If you give private companies the contracts one day, they will be selling the products in Amman the next," he said. A Ministry of Finance representative agreed with Al-Hamriri, arguing the risk of wide price fluctuations necessitated the need for significant government involvement. As for the corruption charge that Board members leveled against current PDS administration, Al-Hamriri said the MoT's proposed self income declaration form, combined with the DAC audit, would help end corruption on the distribution end by weeding out ghost beneficiaries and by identifying forgery. Advisory Board members responded that the MoT was overestimating the DACs' ability to verify information and underestimating the councils' susceptibility to corruption.

INTERNATIONAL COMMUNITY WEIGHS IN

18. (SBU) International Organization representatives expressed concern over lack of progress on PDS reform. Pointing out the GOI pledged to phase out the PDS completely by 2011 under the ICI, the UNDP's Simona Marinescu questioned why the 2009 budget request for PDS was 6.4 trillion ID, essentially the

same amount as in 2008. On the various arguments presented by the steering committee members, Marinescu emphasized that both philosophies tied PDS benefits to the social safety net program, and the principal question was to what extent the private sector could participate. "We should also bear in mind how you can publicize this, reduce reliance on imports, and create jobs," she added. The International Labor Organization also agreed with the need to move PDS benefits to the social safety net program, but went further by saying this would need to be tied to the overall reform of the social safety net.

COMMENT

19. (SBU) After security and electricity, Provincial Reconstruction Teams and GOI interlocutors report that many Iraqis view PDS as perhaps the single most visible indicator of whether or not a democratically elected government can deliver services. And Iraqi politicians are keenly aware of this reality -- a fact made plain by the dramatic disconnect between the reform strategy the PM,s Advisory Board has presented and that of the MOT. At least for 2009, this disconnect will likely not be resolved. MOT Al-Sudani has already told us even the initial step of collecting income information from beneficiaries will be delayed by several months (reftels), and the 2009 budget request is further proof that this is the case. This said, we remain hopeful that -- ultimately -- PDS reform will occur. The information gathering and means-testing phases (i.e., the only points the Board and the MOT generally agree upon) could even start as early as 2009. But the final phase -- full monetization and integration into the social safety net payment system -- will not occur for years. End Comment.

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